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# Liberty Street Advisors Managing Director Kevin Moss on Democratising Access to Late-Stage Private Markets

How can investors gain access to a portfolio of unique, privately-owned companies? Where will the best opportunities be in 2022? Are the most interesting options amongst the pre-IPO disruptors, and/or high growth innovation companies? And what is the impact of tighter liquidity and rising inflation on private markets in general? Kevin Moss, Managing Director and Portfolio Manager at US-headquartered Liberty Street Advisors addressed these and other issues around private markets at the Hubbis Thailand Wealth Management Forum in Bangkok on May 25. He explained that while the number of listed companies in the US keeps falling, the number of private companies keeps growing. He told delegates how private companies now stay private far longer than before, and for investors to capture the major phases of growth, they should be looking at accessing investment in these companies while they are still private, with his fund's particular focus on the two to four years before an IPO or exit via M&A.

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**Kevin Moss**
Liberty Street Advisors

**From past interviews** and discussions with Kevin, Hubbis has learned that he has long been a very keen advocate of private assets. In recent years, he has been finding more demand for private assets across the globe as more investors have been seeking to diversify their portfolios by including longer-term private asset investment strategies of all types.

He manages a portfolio of privately-owned, late-stage, growth companies, predominantly in the US, and his mission during his presentation to delegates was to offer some valuable insights and pointers to help intermediaries guide HNW and UHNW investors towards interesting private market opportunities. Part of his broader mission centres on democratisation of access to this segment of the investment markets, which were previously confined mostly to institutions and ultra-wealthy investors.

Liberty manages a closed-end interval fund in the US that focus exclusively on late-stage venture capital. The firm has also recently partnered with GAM Investment to run a new and very similar strategy. "With our partnership with GAM, we are offering the same strategy for non-US investors, and we have our eyes firmly on the Asia private client market, where there is growing demand and where we want to build our activity. GAM offers expertise in fund formation and distribution in markets outside of the US where we believe our strategy will find significant demand."

## Staying private longer

When Kevin and his team set out to access this asset class back in 2012, they immediately noticed a real trend of companies staying private much longer. "There is a real shift of capital taking place between public markets and private markets, with the public markets shrinking, while the private markets are expanding," he told Hubbis recently. "Consequently, there is an enormous amount of capital being raised in the private markets. From the outset, we have been trying to democratise access to private equity, offering innovative ways that investors can access this asset class in an appealing and new way."

He expanded on these comments in his May 25 presentation, telling delegates that the average age of a company used to be about four years old before listing some two decades or more ago. Today, the average age of a company heading to listing can be anywhere between 10 to 15 years. At the same time, the public market has been shrinking – he said there used to be about 8000 companies trading in the US, and today the number is just 4000.

"That is a pretty dramatic drop," he said. "And to provide some context, when Apple went public, it was four years old, it had revenues of about USD150 million a year, and it was growing 50% at the top line."

## Funding growth in the private arena

Back then, he said companies like that had to go public in order to continue to finance their growth. Today, he said that a company with Apple's profile very likely stays private for at least another 10 plus years.

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"We have seen this massive capital shift from public markets to private markets, so then the question is how to find access to those private companies," he comments. "How do we do so for the average investor, like you and me, and how can we offer cost-effective access and sidestep so much paperwork and onerous and expensive legal work around investments like this? In addition, how can we also help with liquidity, a key issue for investors? In an effort to address these questions we created our strategy. Furthermore, armed with the successful track record and experience over the past decade, we are now partnering with GAM Investments for the next phase."

## Take your time

Kevin told delegates about some of the reasons for the shift from public to private, and reiterated the greater access now for private companies to raise the money privately that they used to need the public markets for. After then achieving so much growth in the private arena they can later exit in an IPO or an M&A, when they are ready.

"By then, many of the private high growth companies have become mid to large cap companies," he explained. "And that is the idea behind our strategy. We wish to take advantage of that growth and to get access to these companies as they work their way toward a liquidity event. It's as simple as that, really." He added that the strategy and the new partnership with GAM, focus not on large caps, but on providing investors exposure to interesting high growth small and midcap companies.

## Late phase investment

He then focused attention on the key area of investment for the strategy, which is the last phase of a company's life in the private sector before they exit via an IPO or M&A.

Referring to a slide offering data points, he explained that investors who buy into the last round of financing – two to four years pre-IPO or exit - had achieved about 260% gain on capital within six months after the actual IPO or exit event. He said the key is to gain access to companies well in advance of a liquidity event, which is where most of the major returns are available. "Our strategy is therefore to target investments in the two to four years before the listing or the M&A, and it is often an either/or situations as the majority of these companies never even see the public market, as roughly two-thirds of them actually get bought out instead."

## Bucking the trend

And even with companies that list and then trade poorly, he said the fund can achieve good returns. "For example," he reported, "in our US fund we invested in Lyft, which performed poorly on IPO, but we still achieved an attractive return because we invested in that company four years prior to the listing."

He also focused on liquidity, a key issue for investors in private companies. "As we all know," he commented, "traditional venture and private equity have long lockups of perhaps eight or 10 years and beyond, but our lock up's are far shorter, which gives investors much more flexibility so they can then achieve liquidity in a shorter timeframe and use the funds if they need to make "life" choices like buying a house, or providing education for their children."

## A proven track record

He explained that the investment team at Liberty – and of course now GAM as a partner – has great experience in these areas. "We assemble a diversified collection of high-quality, high growth private companies, and the outcome is a well-managed, portfolio of opportunities with relatively low correlation and low volatility toward other asset classes," he reported. "And we have an appealing fee structure compared to traditional venture and PE that helps with the democratisation of access to the asset class."

He told delegates that the original fund in the US today has some one billion dollars under management. "We focus specifically on late-stage companies, we steer clear of early-stage ventures and their funding," he concluded.

## Tough times open new doors

And to those who say that public markets have dropped sharply and private markets are next in line and is risky, he said he disagrees. "Yes, nothing is immune to risk and yes, there have been some big adjustments, but history shows us that periods of volatility or periods of financial distress have been the best times to deploy capital. We have been running the strategy since 2014, and we have gone through a number of periods of financial distress. We are deploying more capital than we ever have, as there are many interesting opportunities right now in high quality companies trading at prices we have not seen in a long time." ■